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DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

Proposed Agency Information Collection Activities; Comment Request

AGENCIES: Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

ACTION: Joint notice and request for comment.

SUMMARY: In accordance with the requirements of the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. chapter 35), the OCC, the Board, and the FDIC (the “agencies”) may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Federal Financial Institutions Examination Council (FFIEC), of which the agencies are members, has approved the agencies’ publication for public comment of a proposal to extend, with revision, the

Consolidated Reports of Condition and Income (Call Report), which are currently approved collections of information. The proposed new data items would be added to the Call Report as of the June 30, 2012, report date, except for two proposed revisions that would take effect March 31, 2012, in connection with the initial filing of Call Reports by savings associations. In addition, proposed instructional changes would take effect March 31, 2012. At the end of the comment period, the comments and recommendations received will be analyzed to determine the extent to which the FFIEC and the agencies should modify the proposed revisions prior to giving final approval. The agencies will then submit the revisions to OMB for review and approval.

DATES: Comments must be submitted on or before [INSERT DATE 60 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Interested parties are invited to submit written comments to any or all of the agencies. All comments, which should refer to the OMB control number(s), will be shared among the agencies.

OCC: You should direct all written comments to: Communications Division, Office of the Comptroller of the Currency, Mailstop 2-3, Attention: 1557-0081, 250 E Street, SW., Washington, DC 20219. In addition, comments may be sent by fax to (202) 874-5274, or by electronic mail to regs.comments@occ.treas.gov. You may personally inspect and photocopy comments at the OCC, 250 E Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to

inspect comments. You may do so by calling (202) 874-4700. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments.

Board: You may submit comments, which should refer to “Consolidated Reports of Condition and Income (FFIEC 031 and 041),” by any of the following methods:

- Agency Web Site: <http://www.federalreserve.gov>. Follow the instructions for submitting comments at:
<http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: regs.comments@federalreserve.gov. Include reporting form number in the subject line of the message.
- FAX: (202) 452-3819 or (202) 452-3102.
- Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW., Washington, DC 20551.

All public comments are available from the Board’s web site at

www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm as submitted, unless modified for technical reasons. Accordingly, your comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room MP-500 of the Board’s Martin Building (20th and C Streets, NW.) between 9:00 a.m. and 5:00 p.m. on weekdays.

FDIC: You may submit comments, which should refer to “Consolidated Reports of Condition and Income, 3064-0052,” by any of the following methods:

- Agency Web Site: <http://www.fdic.gov/regulations/laws/federal/propose.html>.
Follow the instructions for submitting comments on the FDIC Web site.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- E-mail: comments@FDIC.gov. Include “Consolidated Reports of Condition and Income, 3064-0052” in the subject line of the message.
- Mail: Gary A. Kuiper, (202) 898-3877, Counsel, Attn: Comments, Room F-1086, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.
- Hand Delivery: Comments may be hand delivered to the guard station at the rear of the 550 17th Street Building (located on F Street) on business days between 7 a.m. and 5 p.m.

Public Inspection: All comments received will be posted without change to <http://www.fdic.gov/regulations/laws/federal/propose.html> including any personal information provided. Comments may be inspected at the FDIC Public Information Center, Room E-1002, 3501 Fairfax Drive, Arlington, VA 22226, between 9 a.m. and 5 p.m. on business days.

Additionally, commenters may send a copy of their comments to the OMB desk officer for the agencies by mail to the Office of Information and Regulatory Affairs,

U.S. Office of Management and Budget, New Executive Office Building, Room 10235,
725 17th Street, NW., Washington, DC 20503, or by fax to (202) 395-6974.

FOR FURTHER INFORMATION CONTACT: For further information about the revisions discussed in this notice, please contact any of the agency clearance officers whose names appear below. In addition, copies of the Call Report forms can be obtained at the FFIEC's web site (http://www.ffiec.gov/ffiec_report_forms.htm).

OCC: Mary Gottlieb, OCC Clearance Officer, (202) 874-5090, Legislative and Regulatory Activities Division, Office of the Comptroller of the Currency, 250 E Street, SW., Washington, DC 20219.

Board: Cynthia Ayouch, Federal Reserve Board Clearance Officer, (202) 452-3829, Division of Research and Statistics, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551. Telecommunications Device for the Deaf (TDD) users may call (202) 263-4869.

FDIC: Gary A. Kuiper, Counsel, (202) 898-3877, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

SUPPLEMENTARY INFORMATION: The agencies are proposing to revise and extend for three years the Call Report, which is currently an approved collection of information for each agency.

Report Title: Consolidated Reports of Condition and Income (Call Report).

Form Number: Call Report: FFIEC 031 (for banks with domestic and foreign offices) and FFIEC 041 (for banks with domestic offices only).

Frequency of Response: Quarterly.

Affected Public: Business or other for-profit.

OCC:

OMB Number: 1557-0081.

Estimated Number of Respondents: 2,035 (1,399 national banks and 636 federal savings associations).

Estimated Time per Response: National banks: 53.96 burden hours per quarter to file.
Federal savings associations: 54.48 burden hours per quarter to file and 188 burden hours for the first year to convert systems and conduct training.

Estimated Total Annual Burden: National banks: 301,960 burden hours to file.
Federal savings associations: 138,597 burden hours to file plus 119,568 burden hours for the first year to convert systems and conduct training.
Total: 560,125 burden hours.

Board:

OMB Number: 7100-0036.

Estimated Number of Respondents: 827 state member banks.

Estimated Time per Response: 56.06 burden hours per quarter to file.

Estimated Total Annual Burden: 185,446 burden hours.

FDIC:

OMB Number: 3064-0052.

Estimated Number of Respondents: 4,630 (4,570 insured state nonmember banks and 60 state savings associations).

Estimated Time per Response: State nonmember banks: 40.85 burden hours per quarter to file.
State savings associations: 40.88 burden hours per quarter to file and 188 burden hours for the first year to convert systems and conduct training.

Estimated Total Annual Burden: State nonmember banks: 746,738 burden hours to file.
State savings associations: 9811 burden hours to file plus 11,280 burden hours for the first year to convert systems and conduct training.
Total: 767,829 burden hours.

The estimated time per response for the quarterly filings of the Call Report is an average that varies by agency because of differences in the composition of the institutions under each agency's supervision (e.g., size distribution of institutions, types of activities in which they are engaged, and existence of foreign offices). The average reporting burden for the filing of the Call Report is estimated to range from 17 to 715 hours per quarter, depending on an individual institution's circumstances. The initial burden arising from implementing any recordkeeping and systems changes necessary to enable institutions to report the new Call Report data that are the subject of this proposal will also vary across institutions depending on their circumstances. Given the reporting thresholds that apply to certain proposed revisions and the specialized nature of other proposed revisions, the smallest institutions are not likely to be affected by the proposed reporting changes. Based on the size distribution of the more than 7,600 institutions that will be filing Call Reports in 2012, the average initial burden of the proposed revisions

per institution is expected to be limited. The agencies invite institutions to comment on the initial burden of implementing the revisions discussed below in this proposal.

As approved by OMB, savings associations will convert from filing the Thrift Financial Report (TFR) (OMB Number: 1550–0023) to filing the Call Report effective as of the March 31, 2012, report date (unless an institution elects to begin filing the Call Report before that report date).¹ Thus, savings associations will incur an initial burden of converting systems and training staff to prepare and file the Call Report in place of the TFR. Accordingly, the burden estimates above in this notice for savings associations also include the time to convert to filing the Call Report, including necessary systems changes and training staff on Call Report preparation and filing, which is estimated to average 188 hours per savings association.

As a general statement, larger savings associations and those with more complex operations would expend a greater number of hours than smaller savings associations and those with less complex operations. A savings association's use of service providers for the information and accounting support of key functions, such as credit processing, transaction processing, deposit and customer information, general ledger, and reporting should result in lower burden hours for converting to the Call Report. Savings associations with staff having experience in preparing and filing the Call Report should incur lower initial burden hours for converting to the Call Report from the TFR. For further information about the estimated initial burden hours for savings associations' conversion to the Call Report from the TFR, see 76 FR 39986, July 7, 2011.

Type of Review: Revision and extension of currently approved collections.

General Description of Reports

These information collections are mandatory: 12 U.S.C. 161 (for national banks), 12 U.S.C. 324 (for state member banks), 12 U.S.C. 1817 (for insured state nonmember commercial and savings banks), and 12 U.S.C. 1464 (for federal and state savings associations). At present, except for selected data items, these information collections are not given confidential treatment.

Abstract

Institutions submit Call Report data to the agencies each quarter for the agencies' use in monitoring the condition, performance, and risk profile of individual institutions and the industry as a whole. Call Report data provide the most current statistical data available for evaluating institutions' corporate applications, for identifying areas of focus for both on-site and off-site examinations, and for monetary and other public policy purposes. The agencies use Call Report data in evaluating interstate merger and acquisition applications to determine, as required by law, whether the resulting institution would control more than ten percent of the total amount of deposits of insured depository institutions in the United States. Call Report data are also used to calculate institutions'

¹ See 76 FR 39981, July 7, 2011, at http://www.ffiec.gov/pdf/FFIEC_forms/FFIEC031_FFIEC041_20110707_ffr.pdf and the Office of Thrift Supervision's CEO Letter #391 dated July 7, 2011, at http://www.ots.treas.gov/_files/25391.pdf.

deposit insurance and Financing Corporation assessments and national banks' and federal savings associations' semiannual assessment fees.

Current Actions

I. Overview

The agencies are proposing to implement a limited number of revisions to the Call Report requirements in 2012. These changes, which are discussed in detail in Sections II.A through II.G of this notice, are intended to provide data needed for reasons of safety and soundness or other public purposes. The proposed new data items would be added to the Call Report as of the June 30, 2012, report date, except for two proposed revisions that would take effect March 31, 2012, in connection with the initial filing of Call Reports by savings associations. These proposed new data items, which are focused primarily on institutions with \$1 billion or more in total assets, would assist the agencies in gaining a better understanding of institutions' lending activities and credit risk exposures, primarily through enhanced data on the composition of the allowance for loan and lease losses (ALLL), quarter-end loan amounts originated during the quarter, past due and nonaccrual purchased credit-impaired loans, and representation and warranty reserves associated with mortgage loan sales. In addition, beginning with the March 31, 2012, report date, savings associations and certain state savings and cooperative banks would report on their Qualified Thrift Lender compliance in two new Call Report items and certain existing items used in the measurement of the leverage ratio denominator would be modified to accommodate calculations by both banks and savings associations.

The banking agencies are also proposing certain revisions to the Call Report instructions that would take effect March 31, 2012.

The proposed changes include:

- A new Schedule RI-C, Disaggregated Data on the Allowance for Loan and Lease Losses, in which institutions with total assets of \$1 billion or more would report a breakdown by key loan category of the end-of-period allowance for loan and lease losses (ALLL) disaggregated on the basis of impairment method and the end-of-period recorded investment in held-for-investment loans and leases related to each ALLL balance;
- A new Schedule RC-U, Loan Origination Activity, in which institutions with total assets of \$300 million or more would report, separately for several loan categories, the quarter-end amount of loans reported in Schedule RC-C, Loans and Lease Financing Receivables, that was originated during the quarter, and institutions with total assets of \$1 billion or more would also report for these loan categories the portions of the quarter-end amount of loans originated during the quarter that were (a) originated under a newly established loan commitment and (b) not originated under a loan commitment;
- New Memorandum items in Schedule RC-N, Past Due and Nonaccrual Loans, Leases, and Other Assets, for the total outstanding balance and related carrying amount of purchased credit-impaired loans accounted for under ASC 310-30 that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status;

- New items in Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities, in which institutions with \$1 billion or more in total assets and smaller institutions with significant mortgage banking activities would report the amount of representation and warranty reserves for 1-4 family residential mortgage loans sold (in domestic offices), with separate disclosure of reserves for representations and warranties made to U.S. government and government-sponsored agencies and to other parties;
- New items in Schedule RC-M, Memoranda, in which savings associations and certain state savings and cooperative banks would report on the test they use to determine their compliance with the Qualified Thrift Lender requirement and whether they have remained in compliance with this requirement.
- Revisions to two existing items in Schedule RC-R, Regulatory Capital, used in the calculation of the leverage ratio denominator to accommodate certain differences between the regulatory capital standards that apply to the leverage capital ratios of banks versus savings associations.
- Instructional revisions addressing the discontinued use of specific valuation allowances by savings associations when they begin to file the Call Report instead of the TFR beginning in March 2012; the reporting of the number of deposit accounts of \$250,000 or less in Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, by institutions that have issued certain brokered deposits; and the accounting and reporting treatment for capital contributions in the form of cash or notes receivable.

For the March 31, 2012, and June 30, 2012, report dates, as applicable, institutions may provide reasonable estimates for any new or revised Call Report item initially required to be reported as of that date for which the requested information is not readily available. The specific wording of the captions for the new or revised Call Report data items discussed in this proposal and the numbering of these data items should be regarded as preliminary.

II. Discussion of Proposed Call Report Revisions

A. Allowance for Loan and Leases Losses by Loan Category

In July 2010, the Financial Accounting Standards Board (FASB) published Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), which amended Accounting Standards Codification (ASC) Topic 310, Receivables. The main objective of the update was to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Examples of financing receivables include loans, credit cards, notes receivable, and leases (other than an operating lease). The update was intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses.

To achieve its main objective, ASU 2010-20 requires, in part, that an entity disclose by portfolio segment "[t]he balance in the allowance for credit losses at the end

of each period disaggregated on the basis of the entity's impairment method" and "[t]he recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated . . . in the same manner."² As defined in the ASC Master Glossary, a portfolio segment is "[t]he level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses." For each portfolio segment, the disaggregation based on impairment method requires separate disclosure of the allowance and the related recorded investment amounts for financing receivables collectively evaluated for impairment, individually evaluated for impairment, and acquired with deteriorated credit quality.³ This disaggregated disclosure requirement is effective for public entities for the first interim or annual reporting period ending on or after December 15, 2010, and for nonpublic entities for annual reporting periods ending on or after December 15, 2011.

Consistent with the ASU 2010-20 disclosure requirements described above, the agencies are proposing revisions to the June 2012 Call Report to capture disaggregated detail of institutions' allowances for loan and lease losses (ALLL) and related recorded investments for loans and leases from institutions with \$1 billion or more in total assets. Disaggregated data would be reported for key loan categories for which the recorded investments are reported in Schedule RC-C, Part I, Loans and Leases. The agencies also propose to collect this information on the basis of impairment method for each loan

² ASC paragraphs 310-10-51-11B(g) and (h).

³ ASC paragraph 310-10-51-11C. Allowances for amounts collectively evaluated for impairment are determined under ASC Subtopic 450-20, Contingencies—Loss Contingencies (formerly FASB Statement No. 5, "Accounting for Contingencies"), allowances for amounts individually evaluated for impairment are determined under ASC Section 310-10-35, Receivables—Overall—Subsequent Measurement (formerly FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan"), and allowances for loans acquired with deteriorated credit quality are determined under ASC Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer").

category. The agencies believe that the use of key loan categories reported on Schedule RC-C for the proposed new Call Report disaggregated disclosures is consistent with the meaning of the term portfolio segment in ASU 2010-20 and with the agencies' supervisory guidance on ALLL methodologies.⁴ More specifically, the agencies propose to collect from institutions with \$1 billion or more in total assets disaggregated allowance and recorded investment data on the basis of impairment method (collectively evaluated for impairment,⁵ individually evaluated for impairment, and acquired with deteriorated credit quality) for the following loan categories:

- Construction, land development, and other land loans;
 - Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
 - Closed-end loans secured by 1-4 family residential properties;
 - Loans secured by multifamily (5 or more) residential properties;
 - Loans secured by nonfarm nonresidential properties;⁶
 - Commercial and industrial loans;
 - Credit card loans to individuals for household, family, and other personal expenditures;
 - All other loans to individuals for household, family, and other personal expenditures;
- and

⁴ See the agencies' July 2001 "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" at <http://www.federalreserve.gov/boarddocs/srletters/2001/SR0117a1.pdf> and their December 2006 "Interagency Policy Statement on the Allowance for Loan and Lease Losses" at <http://www.fdic.gov/news/news/financial/2006/fil06105a.pdf>.

⁵ For loans collectively evaluated for impairment, an institution would also report the amount of any unallocated portion of its ALLL.

⁶ The first five loan categories would be reported on a domestic office only basis.

- All other loans and all lease financing receivables.

Currently, the Call Report does not provide detail on the components of the ALLL disaggregated by loan category in the manner prescribed by ASU 2010-20. Rather, only the amount of the overall ALLL is reported with separate disclosure of the total amount of the allowance for loans acquired with deteriorated credit quality.⁷ Therefore, when conducting off-site evaluations of the level of an individual institution's overall ALLL and changes therein, examiners and agency analysts cannot determine whether the institution is releasing loan loss allowances in some loan categories and building allowances in others. Collecting more detailed ALLL information would allow the agencies to more finely focus efforts related to the ALLL and credit risk management and, in conjunction with past due and nonaccrual data currently reported by loan category that are used in a general assessment of an institution's credit risk exposures, to better evaluate the appropriateness of its ALLL. As an example, it is currently not possible to differentiate the ALLL allocated to commercial real estate (CRE) loans from the remainder of the ALLL at institutions with CRE concentrations. By collecting more detailed ALLL information, examiners and analysts would then better understand how institutions with such concentrations are building or releasing allowances, the extent of ALLL coverage in relation to their CRE portfolios, and how this might differ among institutions.

The proposed additional detail on the composition of the ALLL by loan category would also be useful for analysis of the depository institution system. As of June 30,

⁷ Credit card specialty banks and other institutions with a significant volume of credit card receivables also disclose the amount, if any, of ALLL attributable to retail credit card fees and finance charges.

2011, institutions with \$1 billion or more in total assets, which would report the additional detail under this proposal, held nearly 92 percent of the ALLL balances held by all institutions. More granular ALLL information would assist the agencies in understanding industry trends related to the build-up or release of allowances for specific loan categories. The information would also support comparisons of ALLL levels by loan category, including the identification of differences in ALLL allocations by institution size. Understanding how institutions' ALLL practices and allocations differ over time for particular loan categories as economic conditions change may also provide insights that can be used to more finely tune supervisory procedures and policies.

The agencies request comment on the degree to which the proposed disaggregated detail of institutions' allowance balances corresponds to institutions' current allowance methodologies, both with respect to the key loan categories included in the proposal and the separate reporting of allowance amounts on the basis of impairment method for each loan category. In addition, comment is invited on the appropriateness of including an item in the Call Report in which institutions would report the amount of any unallocated portion of the ALLL for loans collectively evaluated for impairment.⁸ To the extent that the proposed Call Report information is not captured in institutions' automated data collection systems, the agencies request comment on institutions' ability to begin to capture this ALLL and related recorded investment information associated with outstanding loans.

⁸ The agencies note that the table in ASC paragraph 310-10-55-7 illustrating the required disclosure by portfolio segment of the end-of-period balance of the ALLL disaggregated on the basis of impairment method and the end-of-period recorded investment in financing receivables related to each ALLL balance includes an unallocated portion of the ALLL.

B. Loan Origination Data

As highlighted by the recent financial crisis and its aftermath, the ability to assess credit availability is a key consideration for monetary policy, financial stability, and the supervision and regulation of the banking system. However, the information currently available to policymakers both within and outside the agencies is insufficient to accurately monitor the extent to which depository institutions are providing credit to households and businesses. In its current form, the Call Report collects data on the amount of loans to both households and businesses that are outstanding on institutions' books at the end of each quarter. However, the underlying flow of loan originations cannot be deduced from these quarter-end data owing to the myriad of factors and banking activities (other than charge-offs for which data are reported) that routinely affect the amount of outstanding loans held by institutions, including activities such as loan paydowns, extensions, purchases and sales, securitizations, and repurchases. Direct reporting of loan originations would allow the agencies to isolate the flow of credit creation from the effects of these other banking activities.

Economic research points to a crucial link between the availability of credit and macroeconomic outcomes.⁹ For example, the rapid contraction in both total loans held on institutions' balance sheets and in credit lines held off their balance sheets in the volatile period following the collapse of Lehman Brothers in the fall of 2008 likely contributed to the depth of the economic recession as well as to the subsequent weakness

⁹ See, for example, A. K. Kashyap and J. C. Stein (2000), "What Do a Million Observations on Banks Say About the Transmission of Monetary Policy," *The American Economic Review*, Vol. 90, No. 3, pages 407-428. See also Michael Woodford, "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, Fall 2010, volume 24, issue 4, pages 21-44.

in the recovery in economic activity. As a result, encouraging the expansion of banking organization loan supply was a primary goal of most of the emergency liquidity facilities established during the height of the crisis and of the Troubled Asset Relief Program (TARP).¹⁰ Likewise, numerous authors have shown a relationship between bank lending and changes in bank capital.¹¹ For example, during the early 1990s, lending was also significantly depressed while banks' capital cushions were being rebuilt, leading some analysts to describe the period as a "credit crunch" that resulted in a materially slower recovery in economic activity.

However, the lack of data on loan originations made it very difficult for policymakers to assess the sources of the steep declines in outstanding loans and credit lines during the recent crisis and during the early 1990s "credit crunch." In fact, a fall in outstanding loans could be driven by reduced demand for credit, reduced supply of credit by banking organizations, or both. Looking only at changes in outstanding loan balances can give misleading signals and mask important shifts in the supply of, and demand for, credit. Policymakers may react differently in each of these cases. .

The sources of loan growth—such as whether loans were made under commitment or not under commitment—also contain important insights for those monitoring financial stability or developing macroprudential regulatory policies.¹² As

¹⁰ Chairman Ben S. Bernanke, "Troubled Asset Relief Program and the Federal Reserve's liquidity facilities," Testimony before the Committee on Financial Services, U.S. House of Representatives, November 18, 2008, at <http://www.federalreserve.gov/newsevents/testimony/bernanke20081118a.htm>.

¹¹ See, for example, Joe Peek and Eric Rosengren (1995), "The Capital Crunch: Neither a Borrower nor a Lender Be," *Journal of Money, Credit and Banking*, volume 27(3), pages 625-638, August. See also Ben Bernanke and Cara Lown (1991), "The Credit Crunch," *Brookings Papers on Economic Activity*, 2:1991, pages 205-239.

¹² Moritz Schularick and Alan M. Taylor, "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles and Financial Crises, 1870-2008," 2009, National Bureau of Economic Research, Inc., NBER Working Papers: 15512.

observed in the fall of 2008, strong loan growth that is driven primarily by customers drawing down funds from preexisting lending commitments can be a sign of stresses in financial markets, and therefore a signal that the economy could be slowing down. In contrast, strong growth in credit that includes robust extensions to new customers could signal a broad pickup in demand for financing and hence renewed economic growth, or it could suggest that institutions have eased their lending standards. Accordingly, rapid loan growth can be an important indicator of the safety and soundness of individual institutions.¹³ Loan origination data, if collected from depository institutions, would better identify when such developments warrant greater supervisory scrutiny.

Credit availability to small businesses is widely considered an important driver of economic growth. As a result, the significant contraction in business loans on institutions' books over the past several years has generated calls from policymakers (and the public) to better understand the credit flows of small businesses.¹⁴ The collection of data on originations of loans to businesses by the size of the original loan would provide a window into the functioning of the important small business market.¹⁵

¹³ William R. Keeton, "Does Faster Loan Growth Lead to Higher Loan Losses?" *Federal Reserve Bank of Kansas City Economic Review*, 2nd Quarter 1999, volume 84, issue 2, pages 57-75, and Deniz Igan and Marcelo Pinheiro, "Exposure to Real Estate in Bank Portfolios," *Journal of Real Estate Research*, January-March 2010, volume 32, issue 1, pages 47-74.

¹⁴ See Federal Reserve Board, Report to Congress on the Availability of Credit to Small Business, 2007, at <http://www.federalreserve.gov/boarddocs/rptcongress/smallbusinesscredit/sbfreport2007.pdf>. See also testimony before the House Financial Services Committee (May 18, 2010) at <http://cybercemetery.unt.edu/archive/cop/20110401231854/http://cop.senate.gov/documents/testimony-051810-atkins.pdf> and Congressional Oversight Panel Oversight Report, The Small Business Credit Crunch and the Impact of the TARP (May 13, 2010), at <http://cybercemetery.unt.edu/archive/cop/20110402035902/http://cop.senate.gov/documents/cop-051310-report.pdf>.

¹⁵ The Call Report and TFR currently collect the outstanding amount of small dollar loans to businesses and farms where, for loans to businesses, "small dollar" is defined as loans (not made under commitments) that have original amounts of \$1 million or less and draws on commitments where the total commitment amount is \$1 million or less.

In addition, if loan origination information were available, it would also be valuable in designing, and assessing the effectiveness of, government policies for depository institutions and other financial markets. For instance, policymakers would be keenly attuned to whether, and if so, to what extent, the changes to the capital and liquidity requirements for large institutions that will be contained in regulations implementing the Dodd-Frank Act and the international Basel III agreement affect depository institution loan supply. Although these new regulations would only directly affect a few dozen large banking organizations, smaller banking organizations also may adjust their lending policies in response to the changes at large banking organizations.

Loan data currently available to the agencies provide insufficient detail to accurately monitor credit creation by depository institutions. The Call Report currently collects data on the recorded amounts of a wide variety of loan categories in Schedule RC-C, Loans and Lease Financing Receivables. Schedule RI-B, Part I, Charge-Offs and Recoveries on Loans and Leases, collects the flow of gross charge-offs and recoveries in many of the loan categories for which recorded amounts are reported in Schedule RC-C, Part I, Loans and Leases. On Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities (in Domestic Offices), which was added to the Call Report in 2006, certain banks report originations and purchases of residential mortgage loans held for sale, but not originations of loans held for investment. On Schedule RC-S, Servicing, Securitization, and Asset Sale Activities, banks report the outstanding principal balance of seven categories of loans sold and securitized for which the

institution has retained servicing or has provided recourse or other credit enhancements.¹⁶

For these same seven loan categories, banks also report the unpaid principal balance of loans they have sold (not in securitizations) with recourse or other seller-provided credit enhancements. No data exist for those loans banks have sold without recourse or seller-provided credit enhancements when servicing has not been retained.

In contrast, savings associations currently report data on loan originations, sales, and purchases in the Thrift Financial Report (TFR). On TFR Schedule CF, Consolidated Cash Flow Information, savings associations report by major loan category the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter. In addition, on TFR Schedule LD, Loan Data, savings associations report the amount of net charge-offs, purchases, originations, and sales of certain 1-4 family and multifamily residential mortgages with high loan-to-value ratios.¹⁷

The agencies propose to begin collecting data on loan originations from institutions with total assets of \$300 million or more because, as outlined in detail above, this information would be of substantial benefit in light of the fact that the data currently available for banking organizations are inadequate for monetary policy and financial stability regulators to monitor and analyze credit flows and because the proposed data would support the agencies' supervisory efforts.

More specifically, for depository institutions with \$300 million or more in total assets, the agencies propose to collect quarterly information on loan originations for several important loan categories by introducing a new Schedule RC-U, Loan Origination

¹⁶ The seven categories are (1) 1-4 family residential mortgages, (2) home equity loans, (3) credit card loans, (4) auto loans, (5) other consumer loans, (6) commercial and industrial loans, and (7) all other loans, all leases, and all other assets (commercial real estate loans, for example, are subsumed in this category).

Activity (in Domestic Offices).¹⁸ Under this proposal, all institutions with \$300 million or more in total assets would report in column A of Schedule RC-U, for certain loan categories reported in Schedule RC-C, Loans and Lease Financing Receivables, the quarter-end balance sheet amount for those loans originated during the quarter that ended on the report date.¹⁹ Institutions with \$1 billion or more in total assets would also report, for relevant loan categories, (1) the portion of this quarter-end amount that was originated under a newly established commitment²⁰ (column B of Schedule RC-U) and (2) the portion that was not originated under a commitment (column C of Schedule RC-U). In general, the additional data that would be reported in columns B and C of Schedule RC-U by institutions with \$1 billion or more in total assets represent two ways that institutions originate new loans, both of which affect the amounts of loans on institutions' balance sheets.

In the proposed originations schedule, all institutions with \$300 million or more in total assets would report the amounts reported in Schedule RC-C, Part I or Part II, as of the quarter-end report date that were originated during the quarter that ended on the report date for the following loan categories:

- 1-4 family residential construction loans;

¹⁷ As previously noted, savings associations will discontinue filing the TFR after the December 31, 2011, report date, which means that these data, as currently reported in the TFR, will no longer be collected going forward.

¹⁸ Thus, depository institutions with less than \$300 million in total assets would be exempt from completing proposed Schedule RC-U.

¹⁹ For example, a loan was originated for \$120,000 during the quarter. As a result of principal payments received during the quarter, the recorded amount of the loan as reported on the institution's Call Report balance sheet (Schedule RC) and in the Call Report loan schedule (Schedule RC-C) at quarter-end was \$101,000. The institution would report the \$101,000 quarter-end recorded amount for this loan in column A of proposed Schedule RC-U. In general, in reporting amounts in column A, if a loan origination date is unknown, the reporting institution would be instructed to use the date that the loan was first booked by the institution.

- Other construction loans and all land development and other land loans;
- Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit;
- Closed-end loans secured by first liens on 1-4 family residential properties;
- Closed-end loans secured by junior liens on 1-4 family residential properties;
- Loans secured by multifamily (5 or more) residential properties;
- Loans secured by nonfarm nonresidential properties;²¹
- Loans to commercial banks and other depository institutions in the U.S.;
- Loans to banks in foreign countries;
- Loans to finance agricultural production and other loans to farmers;
- Commercial and industrial loans to U.S. addressees with original amounts of \$1,000,000 or less;
- Commercial and industrial loans to U.S. addressees with original amounts of more than \$1,000,000;
- Consumer credit card loans;
- Consumer automobile loans;
- Other consumer loans; and
- Loans to nondepository financial institutions.

In addition, for each of the preceding loan categories, except as noted below, institutions with \$1 billion or more in total assets would separately disclose the portion of

²⁰ A newly established commitment is one for which the terms were finalized and the commitment became available for use during the quarter that ended on the report date. A newly established commitment also includes a commitment that was renewed during the quarter that ended on the report date.

the quarter-end amount of loans originated during the quarter that was originated under a newly established commitment and the portion that was not originated under a commitment. Closed-end loans secured by first liens on 1-4 family residential properties, closed-end loans secured by junior liens on 1-4 family residential properties, and consumer automobile loans would be excluded from both of these additional disclosures. Consumer credit card loans and revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit would be excluded from the disclosure of loans not originated under a commitment because it is assumed such loans are always extended under commitment.

Loan originations that were made under a newly established commitment or a commitment that was renewed during the quarter are likely to more closely reflect the current lending standards and loan terms being applied by an institution, so an expansion or contraction in this subset of loans is indicative of current supply and demand conditions. In this regard, research has shown that loans not made under a commitment are more sensitive to changes in monetary policy than loans made under a commitment.²² In contrast, loans drawn under previous commitments reflect lending standards and terms that were in place at the time the loan agreements were reached. Hence, changes in outstanding balances associated with previously committed lines are more indicative of demand for funds from the firms that have these lines, as institutions are less able to ration such credit.

²¹ The first seven loan categories would be reported on a domestic office only basis.

²² Donald P. Morgan, "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments," *Journal of Money, Credit and Banking*, Vol. 30, No. 1 (Feb. 1998), pages 102-118.

As mentioned above, all savings associations, many of which are small, have for many years reported in the TFR the dollar amount of loans that were closed or disbursed, loans and participations purchased, and loan sales during the quarter by major loan category. Thus, the additional reporting burden of proposed Call Report Schedule RC-U for institutions with \$300 million or more in total assets may be manageable for such institutions. Nevertheless, because banks have not previously been required to report data pertaining to loan originations for Call Report purposes, the agencies recognize that institutions' data systems may not at present be designed to identify and capture data on loans originated during the quarter that ended on the report date. The agencies request comment on the ability of institutions' existing loan systems to generate the proposed data for Schedule RC-U. If this information is not currently available, the agencies request comment on how burdensome it would be to adapt current systems to report the proposed origination data for Schedule RC-U. To the extent that existing loan systems enable institutions to track data on loans originated during the quarter by loan category in a different manner than has been proposed, institutions are invited to suggest alternative ways in which such origination data could be collected in the Call Report and to explain how an alternative would meet the agencies' data needs as described above in this section.

C. Past Due and Nonaccrual Purchased Credit-Impaired Loans

The Call Report currently collects information regarding the past due and nonaccrual status of loans, leases, and other assets in Schedule RC-N. To determine

whether an asset is past due for purposes of completing this schedule, an institution must look to the borrower's performance in relation to the contractual terms of the asset. Over the past few years, there has been a substantial increase in the amount of assets reported in Schedule RC-N as past due 90 days or more and still accruing. At some institutions, a large portion of this increase is related to loans subject to the accounting requirements set forth in ASC Subtopic 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly American Institute of Certified Public Accountants Statement of Position 03-3, “Accounting for Certain Loans or Debt Securities Acquired in a Transfer”), i.e., purchased credit-impaired loans, that were acquired in business combinations, including acquisitions of failed institutions, and other transactions. Loans accounted for under ASC Subtopic 310-30 are initially recorded at their purchase price (in a business combination, fair value). To the extent that the cash flows expected to be collected exceed the purchase price of the loans acquired and the acquiring institution has sufficient information to reasonably estimate the amount and timing of these cash flows, the institution recognizes interest income using the interest method. Otherwise, the loans should be placed in nonaccrual status.

Because loans accounted for under ASC Subtopic 310-30 are impaired at the time of purchase, it is possible for institutions to hold on-balance sheet assets purchased at a deep discount that are contractually 90 days or more past due, but on which interest is being accrued because the amount and timing of the expected cash flows on the assets can be reasonably estimated. Currently, insufficient information is collected in Schedule RC-N to determine the volume of purchased credit-impaired loans included in the loan amounts reported as “past due 90 days or more and still accruing” (or reported in

the other past due and nonaccrual categories in the schedule). As the volume of assets reported in the three past due and nonaccrual columns in Schedule RC-N has increased at many institutions that also report holdings of loans accounted for under ASC Subtopic 310-30, the agencies cannot determine whether this growth is due to purchased credit-impaired loans or whether the source of the increase has been deterioration in the credit quality and performance among the assets the institution originated (or purchased without evidence of credit problems at acquisition). Better understanding the source of these increases would assist the agencies in determining the need to adjust their supervisory strategies for individual institutions.

Because of the significant number of acquisitions by depository institutions of loans accounted for under ASC 310-30 over the past few years and the expected number of future acquisitions, the agencies propose to collect additional information in Schedule RC-N to segregate the amount of purchased credit-impaired loans that are included in the past due and nonaccrual loans reported in this schedule. New Memorandum items would be added to Schedule RC-N to separately collect from all institutions the total outstanding balance of purchased credit-impaired loans accounted for under ASC 310-30 that are past due 30 through 89 days and still accruing, past due 90 days or more and still accruing, and in nonaccrual status. The related carrying amount of these loans (before any post-acquisition loan loss allowances) would also be reported by past due and nonaccrual status. This information would mirror the data reported in Memorandum item 7, "Purchased impaired loans held for investment accounted for in accordance with FASB ASC 310-30," in Schedule RC-C, Part I. Based on the information reported in Memorandum item 7, there are less than 300 institutions that hold

purchased credit-impaired loans and would be affected by the proposed new Schedule RC-N Memorandum items.

D. Representation and Warranty Reserves

When institutions sell or securitize mortgage loans, they typically make certain representations and warranties to the investors or other purchasers of the loans at the time of the sale and to financial guarantors of the loans sold. The specific representations and warranties may relate to the ownership of the loan, the validity of the lien securing the loan, and the loan's compliance with specified underwriting standards. Under ASC Subtopic 450-20, Contingencies – Loss Contingencies (formerly FASB Statement No. 5, “Accounting for Contingencies”), institutions are required to accrue loss contingencies relating to the representations and warranties made in connection with their mortgage securitization activities and mortgage loan sales when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. In October 2010, the Division of Corporation Finance of the Securities and Exchange Commission (SEC) sent a letter to certain public companies reminding them of the need to “provide clear and transparent disclosure regarding your obligations relating to the[se] various representations and warranties.”²³ A review of a sample of disclosures about mortgage loan representations and warranties by public banking organizations in their SEC filings

²³ The Division of Corporation Finance's “Sample Letter Sent to Public Companies on Accounting and Disclosure Issues Related to Potential Risks and Costs Associated with Mortgage and Foreclosure-Related Activities or Exposures” can be accessed at <http://www.sec.gov/divisions/corpfin/guidance/cfoforeclosure1010.htm>.

since October 2010 reveals that these disclosures tend to distinguish between obligations to U.S. government-sponsored entities and other parties.

At present, institutions with \$1 billion or more in total assets and smaller institutions with significant 1-4 family residential mortgage banking activities are required to complete Schedule RC-P, 1-4 Family Residential Mortgage Banking Activities. These institutions report the amount of 1-4 family residential mortgage loans previously sold subject to an obligation to repurchase or indemnify that have been repurchased or indemnified during the quarter. However, the amount of representation and warranty reserves attributable to residential mortgages as of quarter-end included in other liabilities on these institutions' balance sheets is not separately reported in Schedule RC-P. Accordingly, building on the SEC's guidance concerning transparent disclosure in this area, the agencies are proposing to add two items to Schedule RC-P in which institutions required to complete this schedule would report the quarter-end amount of representation and warranty reserves for 1-4 family residential mortgage loans sold (in domestic offices), including those mortgage loans transferred in securitizations accounted for as sales. The amount of reserves for representations and warranties made to U.S. government agencies and government-sponsored agencies (the Federal National Mortgage Association or Fannie Mae, the Federal Home Loan Mortgage Corporation or Freddie Mac, and the Government National Mortgage Association or Ginnie Mae) would be reported separately from the amount of reserves for representations and warranties made to other parties.

E. Qualified Thrift Lender Compliance by Savings Associations

The Qualified Thrift Lender (QTL) test has been in place for savings associations since it was enacted as part of the Competitive Equality Banking Act of 1987. To be a QTL, a savings association must either meet the Home Owners' Loan Act (HOLA) QTL test²⁴ or the Internal Revenue Service (IRS) Domestic Building and Loan Association (DBLA) test.²⁵ Under the HOLA QTL test, a savings association must hold "Qualified Thrift Investments" equal to at least 65 percent of its portfolio assets. To be a QTL under the IRS DBLA test, a savings association must meet a "business operations test" and a "60 percent of assets test." A savings association may use either test to qualify and may switch from one test to the other. However, the association must meet the time requirements of the respective test, which is nine out of the last 12 months for the HOLA QTL test or the taxable year (which may be either a calendar or fiscal year) for the IRS DBLA test. A savings association that fails to meet the QTL requirements is subject to certain restrictions, including limits on activities, branching, and dividends.

Through year-end 2011, savings associations will report data on either the HOLA QTL test or the IRS DBLA test, as appropriate, in TFR Schedule SI, Consolidated Supplemental Information. To enable the agencies to continue to monitor savings associations' QTL compliance after year-end 2011 when these institutions will no longer file the TFR, the agencies are proposing to add two new items to Call Report Schedule RC-M, Memoranda, effective March 31, 2012, that would be completed by savings associations. In the first item, a savings association would identify whether it

²⁴ 12 U.S.C. 1467a(m).

²⁵ 26 CFR 301.7701-13A.

uses the HOLA QTL test or the IRS DBLA test to determine its QTL compliance. The second item would be a yes/no question that would ask whether the savings association has been in compliance with either the HOLA QTL test as of each month end during the quarter or the IRS DBLA test for its most recent taxable year.

Under Section 10(*I*) of the HOLA, 12 U.S.C. 1467a(*I*), a state savings bank or cooperative bank is permitted, upon application, to be deemed a savings association for purposes of holding company regulation if it is determined that the bank is a QTL. That section also addresses such a bank's failure to maintain its status as a QTL. State savings banks and cooperative banks that have been deemed savings associations pursuant to 12 U.S.C. 1467a(*I*) have not been required to report on their QTL compliance in the Call Report. Nevertheless, the agencies propose that state savings banks and cooperative banks that have elected to be treated as savings associations also should be required to complete the two QTL items proposed to be added to the Call Report effective March 31, 2012.

F. Leverage Ratio Denominator

Banks currently calculate the denominator of the leverage ratio in items 22 through 27 of Call Report Schedule RC-R, Regulatory Capital. Under the regulatory capital standards applicable to banks, this denominator uses average total assets (as reported in item 9 of Schedule RC-K, Quarterly Averages) as the starting point,²⁶ which banks report in Schedule RC-R, item 22. Disallowed assets and other deductions are then subtracted from average total assets in items 23 through 26 of Schedule RC-R, resulting

in the reporting of the amount of average total assets for leverage capital purposes, i.e., the leverage ratio denominator, in item 27 of Schedule RC-R.

However, savings associations use quarter-end total assets as the starting point for the leverage ratio denominator under the regulatory capital standards applicable to such institutions.²⁷ The quarter-end total assets are then adjusted by subtracting disallowed assets and other deductions and adding the prorated assets of certain “includable subsidiaries” to arrive at the amount of adjusted total assets for leverage capital purposes, i.e., the leverage ratio denominator.

To accommodate the calculation of the leverage ratio denominator by savings associations in Schedule RC-R, items 22 through 27, when such institutions begin filing the Call Report, the agencies are proposing to modify items 22 and 26 of Schedule RC-R effective as of the March 31, 2012, report date. The instructions for Schedule RC-R, item 22, would continue to advise banks to report their average total assets from Schedule RC-K, item 9, but would be revised to further state that savings associations should report their total assets from the Call Report balance sheet, Schedule RC, item 12. The caption for Schedule RC-R, item 22, would be revised to read “Total assets (for banks, average total assets from Schedule RC-K, item 9; for savings associations, total assets from Schedule RC, item 12).” Because savings associations may have additions to and deductions from their total assets when calculating the leverage ratio denominator that are not captured by existing items 23 through 25 of Schedule RC-R, item 26 of the schedule would be changed from “LESS: Other deductions from assets for leverage capital purposes” to “Other additions to (deductions from) assets for leverage capital

²⁶ See, for example, 12 CFR 325.2(x).

²⁷ 12 CFR 167.1.

purposes.” The existing instructions for item 26 would be revised to cover adjustments that savings associations need to make to total assets but are not reported in items 23 through 25 of Schedule RC-R, such as the deduction of assets of “nonincludable” subsidiaries and the addition of the prorated assets of unconsolidated “includable” subsidiaries.

G. Call Report Instructional Revisions

1. Specific Valuation Allowances at Savings Associations

Savings associations that currently file a TFR may create a “specific valuation allowance” (SVA) in lieu of taking a charge-off to record the loss associated with a loan when the institution determines that it is likely that the amount of the loss classification will change due to market conditions. The use of an SVA allows a savings association to reduce or increase the amount of the SVA as market conditions change. When a charge-off is taken, however, the only way an institution can record a reduction in the previously recognized loss is through an actual cash recovery. A savings association is not permitted to use an SVA in lieu of a charge-off when it classifies certain credits as loss such as unsecured loans, consumer loans, and credit cards, and in instances where the collateral underlying a secured loan will likely be acquired through foreclosure or repossession. In those cases, only a charge-off is appropriate.

As previously stated, savings associations will be required to file the Call Report beginning with the March 31, 2012, reporting period (unless an institution elects to begin

filing the Call Report before that report date). Once savings associations begin to file the Call Report, they will be required to follow Call Report instructions and the agencies' policies regarding loss classifications, which would require a charge-off for all confirmed losses and would not allow the creation or use of an SVA as described above. Therefore, the use of SVAs will not be permitted for any savings association after December 31, 2011. The agencies will issue additional supplemental guidance to explain how any existing SVAs should be treated for Call Report purposes when an institution no longer files the TFR.

2. Reporting the Number of Deposit Accounts in Schedule RC-O

In Memorandum item 1 of Schedule RC-O, Other Data for Deposit Insurance and FICO Assessments, institutions report the amount and number of deposit accounts with balances of \$250,000 or less and with balances of more than \$250,000, which is the current deposit insurance limit (except, temporarily, for noninterest-bearing transaction accounts). The instructions for Memorandum item 1 discuss the reporting of brokered certificates of deposit issued in \$1,000 amounts under a master certificate of deposit to a deposit broker in an amount that exceeds \$250,000. Purchases of multiple \$1,000 units in a master certificate of deposit by an individual depositor normally do not exceed the \$250,000 deposit insurance limit, but current deposit insurance rules do not require the deposit broker to routinely provide information on the individual purchasers and their account ownership to the institution that issued the master certificate. If this information is not readily available to the issuing institution, the instructions for Memorandum item 1

indicate that these master certificates of deposit may be rebuttably presumed to be fully insured and should be reported as deposit accounts of \$250,000 or less. A similar rebuttable presumption and reporting guidance applies to brokered deposits in the form of master transaction accounts or money market deposit accounts denominated in units of \$0.01 that are established and maintained by a deposit broker in a fiduciary capacity for the broker's customers. The instructions for Memorandum item 1 also state that time deposits issued to deposit brokers in the form of certificates of deposit of \$250,000 or more that have been participated out by the broker in shares of \$250,000 or less should be reported as deposit accounts of \$250,000 or less.

Although the reporting of these master brokered deposits as deposit accounts of \$250,000 or less is addressed in the instructions for Memorandum item 1, the instructions do not explain how to treat these brokered deposits for purposes of reporting the number of deposit accounts. As a consequence, some institutions are counting each \$1,000 unit in a master brokered certificate of deposit and each \$0.01 unit in a master transaction or money market deposit account as a separate account. This reporting method leads to an overstatement of the actual number of deposit accounts. For example, an institution following this reporting method that has issued a \$10 million master brokered certificate of deposit would report this certificate as representing 10,000 accounts, when the institution's records reflect the existence of only a single account.

Accordingly, the agencies are proposing to revise the instructions for Schedule RC-O, Memorandum item 1, to explain that an institution that has issued a master brokered certificate of deposit or a master transaction or money market deposit account with a balance in excess of \$250,000 to which the rebuttable presumption that

the balance is fully insured applies should count each such master certificate or account as one account, not as multiple accounts. This would also apply to brokered certificates of deposit of \$250,000 or more that have been participated out by the broker in shares of \$250,000 or less.

3. Capital Contributions in the Form of Cash or Notes Receivable

The agencies often receive questions about capital contributions in the form of a note receivable. The capital contribution may involve a sale of capital stock or a contribution to additional paid-in capital (surplus) that often takes place, or is expected to take place, at or shortly before a quarter-end report date. In other cases, capital contributions are in the form of cash, with some occurring before quarter-end and others occurring after quarter-end. The regulatory reporting issue that arises with respect to these capital contributions is when and under what circumstances can they be reflected as an increase in the amount of equity capital reported on the balance sheet and thereby be included in regulatory capital.

Although the accounting for capital contributions is not currently addressed in the Call Report instructions, institutions are expected to report capital contributions in their Call Reports in accordance with generally accepted accounting principles (GAAP). In summary, capital contributions in the form of cash are appropriately recognized in equity capital on the balance sheet when received. Capital contributions in the form of a note receivable, executed prior to quarter-end, increase an institution's equity capital at quarter-end only when the note is collected prior to issuance of the institution's financial

statements (including its Call Report) for that quarter. To provide guidance to institutions and examiners on the appropriate reporting of these capital contributions, the agencies are proposing to add the following new Glossary entry to the Call Report instructions.

Capital Contributions of Cash and Notes Receivable: An institution may receive cash or a note receivable as a contribution to its equity capital. The transaction may be a sale of capital stock or a contribution to paid-in capital (surplus), both of which are referred to hereafter as capital contributions. The accounting for capital contributions in the form of notes receivable is set forth in ASC Subtopic 505-10, Equity – Overall (formerly EITF Issue No. 85-1, “Classifying Notes Received for Capital Stock”) and SEC Staff Accounting Bulletin No. 107 (Topic 4.E., Receivables from Sale of Stock, in the Codification of Staff Accounting Bulletins). This Glossary entry does not address other forms of capital contributions, for example, nonmonetary contributions to equity capital such as a building.

A capital contribution of cash should be recorded in an institution’s financial statements and Consolidated Reports of Condition and Income when received. Therefore, a capital contribution of cash prior to a quarter-end report date should be reported as an increase in equity capital in the institution’s reports for that quarter (in Schedule RI-A, item 5 or 11, as appropriate). A contribution of cash after quarter-end should not be reflected as an increase in the equity capital of an earlier reporting period.

When an institution receives a note receivable rather than cash as a capital contribution, ASC Subtopic 505-10 states that it is generally not appropriate to report the note as an asset. As a consequence, the predominant practice is to offset the note and the

capital contribution in the equity capital section of the balance sheet, i.e., the note receivable is reported as a reduction of equity capital. In this situation, the capital stock issued or the contribution to paid-in capital should be reported in Schedule RC, item 23, 24, or 25, as appropriate, and the note receivable should be reported as a deduction from equity capital in Schedule RC, item 26.c, “Other equity capital components.” No net increase in equity capital should be reported in Schedule RI-A, Changes in Bank Equity Capital. In addition, when a note receivable is offset in the equity capital section of the balance sheet, accrued interest receivable on the note also should be offset in equity (and reported as a deduction from equity capital in Schedule RC, item 26.c), consistent with the guidance in ASC Subtopic 505-10. Because a nonreciprocal transfer from an owner or another party to an institution does not typically result in the recognition of income or expense, the accrual of interest on a note receivable that has been reported as a deduction from equity capital should be reported as additional paid-in capital rather than interest income.

However, ASC Subtopic 505-10 provides that an institution may record a note received as a capital contribution as an asset, rather than a reduction of equity capital, only if the note is collected in cash “before the financial statements are issued.” The note receivable must also satisfy the existence criteria described below. When these conditions are met, the note receivable should be reported separately from an institution’s other loans and receivables in Schedule RC-F, item 6, “All other assets,” and individually itemized and described in accordance with the instructions for item 6, if appropriate.

For purposes of these reports, the financial statements are considered issued at the earliest of the following dates:

- (1) The submission deadline for the Consolidated Reports of Condition and Income
(30 calendar days after the quarter-end report date, except for an institution that has more than one foreign office, other than a “shell” branch or an International Banking Facility, for which the deadline is 35 calendar days after quarter-end);
- (2) Any other public financial statement filing deadline to which the institution or its parent holding company is subject; or
- (3) The actual filing date of the institution’s public financial reports, including the filing of its Consolidated Reports of Condition and Income or a public securities filing by the institution or its parent holding company.

To be reported as an asset, rather than a reduction of equity capital, as of a quarter-end report date, a note received as a capital contribution (that is collected in cash as described above) must meet the definition of an asset under generally accepted accounting principles by satisfying all of the following existence criteria:

- (1) There must be written documentation providing evidence that the note was contributed to the institution prior to the quarter-end report date by those with authority to make such a capital contribution on behalf of the issuer of the note (e.g., if the contribution is by the institution’s parent holding company, those in authority would be the holding company’s board of directors or its chief executive officer or chief financial officer);
- (2) The note must be a legally binding obligation of the issuer to fund a fixed and determinable amount by a specified date; and
- (3) The note must be executed and enforceable before quarter-end.

Although an institution's parent holding company may have a general intent to, or may have entered into a capital maintenance agreement with the institution that calls for it to, maintain the institution's capital at a specified level, this general intent or agreement alone would not constitute evidence that a note receivable existed at quarter-end.

Furthermore, if a note receivable for a capital contribution obligates the note issuer to pay a variable amount, the institution must offset the note and equity capital. Similarly, an obligor's issuance of several notes having fixed face amounts, taken together, would be considered a single note receivable having a variable payment amount, which would require all the notes to be offset in equity capital as of the quarter-end report date.

Request for Comment

Public comment is requested on all aspects of this joint notice. Comments are invited on:

- (a) Whether the proposed revisions to the collections of information that are the subject of this notice are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;
- (b) The accuracy of the agencies' estimates of the burden of the information collections as they are proposed to be revised, including the validity of the methodology and assumptions used;
- (c) Ways to enhance the quality, utility, and clarity of the information to be collected;

- (d) Ways to minimize the burden of information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and
- (e) Estimates of capital or start up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments submitted in response to this joint notice will be shared among the agencies. All comments will become a matter of public record.

[THIS SIGNATURE PAGE PERTAINS TO THE JOINT NOTICE AND REQUEST
FOR COMMENT, “PROPOSED AGENCY INFORMATION COLLECTION
ACTIVITIES; COMMENT REQUEST,” FOR THE CONSOLIDATED REPORTS OF
CONDITION AND INCOME]

Dated: November 10, 2011

Michele Meyer,
*Assistant Director, Legislative and Regulatory Activities Division,
Office of the Comptroller of the Currency.*

[THIS SIGNATURE PAGE PERTAINS TO THE JOINT NOTICE AND REQUEST
FOR COMMENT, “PROPOSED AGENCY INFORMATION COLLECTION
ACTIVITIES; COMMENT REQUEST,” FOR THE CONSOLIDATED REPORTS OF
CONDITION AND INCOME]

Board of Governors of the Federal Reserve System, November 14, 2011.

Robert deV. Frierson
Deputy Secretary of the Board.

[THIS SIGNATURE PAGE PERTAINS TO THE JOINT NOTICE AND REQUEST
FOR COMMENT, “PROPOSED AGENCY INFORMATION COLLECTION
ACTIVITIES; COMMENT REQUEST,” FOR THE CONSOLIDATED REPORTS OF
CONDITION AND INCOME]

Dated at Washington, D.C., this 10th day of November, 2011.

FEDERAL DEPOSIT INSURANCE CORPORATION

Robert E. Feldman
Executive Secretary

Billing Codes

OCC: 4810-33-P 1/3
Board: 6210-01-P 1/3
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